



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 07/12/2021

ITEM NO: 8

DATE: July 8, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review Police Costs Relative to Total Expenditures and Revenues

RECOMMENDATION:

Review Police costs relative to total expenditures and revenues.

DISCUSSION:

Per the Finance Commission Chair's request, Attachment 1 contains historic Police Department expense data relative to total Town expenses and revenues.

Attachment:

1. PD Expense Slides

PREPARED BY: Steve Conway
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Finance Director

Town of Los Gatos Police Costs Compared to Overall Town Costs



- **Data source:
Comprehensive Annual
Financial Reports for
FY09/10 through FY19/20**
- **Comparison based on the
Statement of Activities
(SOA) and Public Safety
Expenses**
- **SOA Prepared on Full
Accrual Basis**

POLICE EXPENSES

Fiscal Years (FY)	Public Safety Expenses	Total Expenses	Percentage of Public Safety Expenses of Total Expenses
FY 2009/10	\$ 13,266,849	\$ 33,167,689	40.00%
FY 2010/11	\$ 13,495,885	\$ 33,111,306	40.76%
FY 2011/12	\$ 14,124,798	\$ 34,752,448	40.64%
FY 2012/13	\$ 13,731,754	\$ 36,019,116	38.12%
FY 2013/14	\$ 14,119,786	\$ 36,273,544	38.93%
FY 2014/15	\$ 12,644,221	\$ 34,271,936	36.89%
FY 2015/16	\$ 12,825,688	\$ 34,417,918	37.26%
FY 2016/17	\$ 14,587,597	\$ 39,290,901	37.13%
FY 2017/18	\$ 15,545,521	\$ 43,039,932	36.12%
FY 2018/19	\$ 17,725,475	\$ 44,236,037	40.07%
FY 2019/20	\$ 20,446,188	\$ 48,007,443	42.59%

Overall 11-Year Average	38.96%
--------------------------------	---------------

POLICE EXPENSES

Fiscal Years (FY)	Public Safety Expenses	Total Program and Government Revenues	Percentage of Public Safety Expenses of Total Program and Government Revenues
FY 2009/10	\$ 13,266,849	\$ 42,884,530	30.94%
FY 2010/11	\$ 13,495,885	\$ 39,722,496	33.98%
FY 2011/12	\$ 14,124,798	\$ 40,263,015	35.08%
FY 2012/13	\$ 13,731,754	\$ 39,834,671	34.47%
FY 2013/14	\$ 14,119,786	\$ 40,414,689	34.94%
FY 2014/15	\$ 12,644,221	\$ 43,139,836	29.31%
FY 2015/16	\$ 12,825,688	\$ 40,401,294	31.75%
FY 2016/17	\$ 14,587,597	\$ 41,571,138	35.09%
FY 2017/18	\$ 15,545,521	\$ 43,775,789	35.51%
FY 2018/19	\$ 17,725,475	\$ 48,586,229	36.48%
FY 2019/20	\$ 20,446,188	\$ 48,039,005	42.56%

Overall 11-Year Average	34.55%
-------------------------	--------



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 07/12/2021

ITEM NO: 8

DESK ITEM

DATE: July 12, 2021
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review Police Costs Relative to Total Expenditures and Revenues

REMARKS:

Attachment 2 contains public comment received after the July 8, 2021 distribution of the staff report.

Attachment received with staff report:

1. PD Expense Slides

Attachment received with this Desk Item:

2. Public Comment

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager

From: Phil Koen [REDACTED]
Sent: Saturday, July 10, 2021 8:17 AM
To: Ron Dickel [REDACTED]; Kyle Park [REDACTED]; stacey.del [REDACTED]; loreen [REDACTED]; ricktinsley [REDACTED]; Rob Rennie <RRennie@losgatosca.gov>; Matthew Hudes <MHudes@losgatosca.gov>
Cc: Laurel Prevetti <LPrevetti@losgatosca.gov>; Arn Andrews <aandrews@losgatosca.gov>; Robert Schultz <RSchultz@losgatosca.gov>; jvannada [REDACTED]; Lee Fagot [REDACTED]; Catherine Somers [REDACTED]; Jim Foley [REDACTED]
Subject: Agenda Item 8 - Analysis of Police Expense

Members of the Finance Commission,

I have attached a more relevant analysis of the Town's historical expenditures for public safety which shows how the Town has funded public safety expenditures over the past 11 years. These numbers were taken from the Statement of Activities.

The Statement of Activities (see FY 2020 attached) reports gross functional/program expenditures, all revenues which were earned by the function/program and the resulting net functional/program expenditures. The attached spreadsheet shows public safety data for the period from FY 2010 through FY 2020. Since FY 2010, gross public safety expenditures have increased 54.1% or at a CAGR of 4.4%. The cost of public safety is the fastest growing expense for the Town.

The Town has funded these expenditures through a combination of functional/program revenues and general tax revenue. The functional/program revenues are comprised of various funding sources such as payments from Monte Sereno for police services provided to that city, vehicle code fines, federal and state grant money, and donations. Historically these functional sources of funds have contributed approximately \$2.2m to \$3.5m toward the total cost of public safety. It is important to understand that program revenues are generated by the associated functions and are generally restricted to those programs/functions and in some instances (such as grants) are non-recurring revenue sources.

Although some governmental functions are self-supporting (such as sanitation) by raising enough revenue on their own to cover their costs, most of the Town's functions (Public Safety, Parks and Public Works, Community Development, Library Services) are not self-supporting and depend upon general tax revenues to fund the shortfall. **This is the critical issue to understand – namely, how much of the general tax revenue base is the cost of public safety consuming and what has been the trend over the past 11 years.**

The Staff analysis does not answer this question. In fact, the analysis is flawed since public safety expenditures are compared to ALL revenue including program revenues that do not fund public safety (such as VTA grants, or construction permits).

If we deduct the public safety functional revenue from the gross expenditures for public safety, the resulting net expenditures for public safety must be funded from general tax revenues. The spreadsheet also shows the total revenues received by the Town from General Tax Revenue. The principal tax revenues for the Town are comprised of property taxes, sales taxes, franchise taxes and other miscellaneous taxes.

Since FY 2010, public safety expenditures have consumed a greater portion of the Town's general tax revenue, increasing from 37% in FY 2010 to 59% in FY 2020. This increasing trend is driven by net public safety expenditures growing at a 5% CAGR while total general tax revenues have grown at a .2% CAGR. The result is public safety expenditures are consuming more and more of the Town's general tax revenues which is "crowding out" the ability for the Town to fund critical services the Town must also provide, such as senior services, parks and recreation, street repair and cleaning, etc.

This should not be a surprise to anyone since the Town's auditor clearly called this out in his most recent presentation to the Town Council of the FY 2020 results. In that presentation the auditor presented a slide (which is attached) which shows that **in FY 2020 the Town's total net cost of service exceeded the Town's total tax revenue**. And the main driver of this, was the growth in public safety expenditures. This should be a wake-up call for anyone concerned about long-term fiscal stability because the Town cannot continuously operate in a fiscal condition where the total net cost of services provided exceeds general tax revenues collected.

Please let me know if you have any questions.

Phil Koen

	Gross Public Safety Expenditures	Less: Functional Revenues	Net Public Safety Expenditures	Total Tax Revenue	Net Public Safety Exp/ Total Tax Rev
FY 2010	13,266,849	2,192,354	11,074,495	29,796,920	37.2%
FY 2011	13,495,885	2,181,591	11,314,294	31,103,674	36.4%
FY 2012	14,124,798	2,354,377	11,770,421	27,676,719	42.5%
FY 2013	13,731,754	2,541,990	11,189,764	22,877,632	48.9%
FY 2014	14,119,786	3,249,240	10,870,546	23,460,288	46.3%
FY 2015	12,644,221	3,554,004	9,090,217	25,412,604	35.8%
FY 2016	12,825,688	3,376,723	9,448,965	25,521,022	37.0%
FY 2017	14,587,597	2,914,017	11,673,580	28,399,621	41.1%
FY 2018	15,545,521	2,784,089	12,761,432	28,567,313	44.7%
FY 2019	17,725,475	2,572,532	15,152,943	30,682,158	49.4%
FY 2020	20,446,188	2,510,352	17,935,836	30,269,417	59.3%
Average Analysis					
FY 2010 - FY 2015	13,563,882	2,678,926	10,884,956	26,721,306	41.2%
FY 2016 - FY 2020	16,226,094	2,831,543	13,394,551	28,687,906	46.3%

**TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General government	\$ 7,405,368	\$ 1,470,324	\$ 12,290	\$ 8,258	\$ (5,914,496)
Public safety	20,446,188	1,549,207	952,045	9,100	(17,935,836)
Parks and public works	11,803,005	3,674,222	2,824,638	832,755	(4,471,390)
Community development	5,001,958	3,351,753	15,864	-	(1,634,341)
Library services	3,347,523	11,522	49,351	-	(3,286,650)
Sanitation	3,041	231,323	-	-	228,282
Total Governmental Activities	<u>\$ 48,007,083</u>	<u>\$ 10,288,351</u>	<u>\$ 3,854,188</u>	<u>\$ 850,113</u>	<u>(33,014,431)</u>
General revenues:					
Taxes:					
Property taxes					18,330,426
Sales taxes					7,531,425
Franchise taxes					2,495,792
Other taxes					1,911,774
Motor vehicle in lieu					24,526
Investment earnings					2,428,470
Miscellaneous					323,940
Total general revenues					<u>33,046,353</u>
Change in Net Position					31,922
Net Position - Beginning					<u>114,819,109</u>
Net Position - Ending					<u>\$ 114,851,031</u>

The notes to the financial statements are an integral part of this statement.

Government-Wide Financial Statements

Net Cost of Service to Tax Revenue

